

**UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION**

In re:)	Chapter 9
)	
CITY OF DETROIT, MICHIGAN,)	Case No. 13-53846
)	
Debtor.)	Hon. Steven W. Rhodes

**FEE EXAMINER'S SECOND QUARTERLY REPORT FOR MONTHS OF
OCTOBER, NOVEMBER AND DECEMBER 2013**

Robert M. Fishman, the duly appointed fee examiner (the “Fee Examiner”), submits this Quarterly Report for the Months of October, November and December 2013 (the “Reporting Period”) pursuant to paragraph 8 of the Court’s Fee Review Order dated September 11, 2013 [Docket No. 810] (the “Fee Review Order”):¹

Background

1. Pursuant to the Order Appointing Fee Examiner dated August 19, 2013 [Docket No. 383] (the “Appointment Order”), the Court appointed Robert M. Fishman as the Fee Examiner in connection with the above-captioned bankruptcy case (the “Case”). Pursuant to the Appointment Order, it is the Fee Examiner’s responsibility to assure the Court, the City, the creditors, and the public that the City’s Professional Fee Expenses (as defined in the Appointment Order) are fully disclosed and are reasonable, as required by 11 U.S.C. § 943(b)(3).

2. Pursuant to paragraph 1 of the Fee Review Order, by no later than September 30, 2013, the City and the Committee were both required to submit lists of all professionals who have been retained to render services in connection with the Case and who seek payment of compensation and reimbursement of expenses from the City for post-petition services, excluding

¹ Capitalized terms not otherwise defined herein shall have the meaning assigned in the Fee Review Order.

ordinary course professionals hired by the City not in conjunction with the Case, but rather in the same contexts and capacities as such professionals were typically hired by the City prior to the commencement of the Case. Fee Review Order, ¶ 1. The City and the Committee both complied with this requirement by submitting lists of the following City Professionals and Committee Professionals:²

City Professionals

Conway MacKenzie, Inc.
Dykema Gossett, PLLC
Ernst & Young LLP
Jones Day
Foley & Lardner LLP
Kilpatrick & Associates, PC
Kurtzman Carson Consultants LLC
Miller Buckfire & Co. LLC
Miller, Canfield, Paddock & Stone, P.L.C.
Milliman, Inc.
Ottenwess, Allman & Taweel, PLC
Pepper Hamilton LLP

Committee Professionals

Dentons US LLP/Salans FMC SNR Denton Europe LLP
Brooks Wilkins Sharkey & Turco PLLC
Lazard Freres & Co. LLC
Segal Consulting

3. By no later than October 4, 2013, each City Professional and Committee Professional was required to submit to the Fee Examiner (a) an executed copy of its engagement letter, (b) a verified rate statement respecting regular hourly rates and Discounted Rates, and (c) a list of billing and expense categories to be used in Monthly Invoices, which list had to be acceptable to the Fee Examiner in his reasonable discretion (collectively, the “Initial Submissions”). Fee Review Order, ¶ 2.

² The City added Professionals (Dykema Gossett, PLLC, Kilpatrick & Associates, PC and Ottenwess, Allman & Taweel, PLC) in a letter to the Fee Examiner dated December 13, 2013.

4. Each of the Professionals has provided its Initial Submissions to the Fee Examiner.

5. Pursuant to the Fee Review Order, each Professional is required to submit Monthly Invoices to the Fee Examiner within 49 days after the end of each calendar month; provided, however, that the July and August 2013 Monthly Invoices were due on or before October 21, 2013 (each, an “Invoice Deadline”). *Id.*, ¶ 4. Within 35 days of each Invoice Deadline, the Fee Examiner is required to create Preliminary Reports with respect to each timely submitted Monthly Invoice and transmit that Preliminary Report to the applicable Professional. *Id.*, ¶ 5. During the 14-day period after the Fee Examiner transmits the Preliminary Report (the “Resolution Period”), the Fee Examiner and each Professional are required to meet and confer respecting any issues raised by the Fee Examiner in the Preliminary Report in an effort to resolve such issues by agreement (the “Resolution Discussion”). *Id.*, ¶ 6.

6. Within 14 days after the expiration of the Resolution Period, the Fee Examiner is required to prepare a Final Monthly Report respecting all of the Monthly Invoices. Fee Review Order, ¶ 7. In the Final Monthly Report, the Fee Examiner is required to delineate all write-offs and other adjustments made to each Monthly Invoice, both before the submission of the Monthly Invoice and as a result of the Resolution Discussions. *Id.*

7. Beginning on February 4, 2014³ and approximately every 91 days thereafter, the Fee Examiner is required to prepare Quarterly Reports, which must include the following: (a) copies of each of the Final Monthly Reports for the applicable months and copies of each Monthly Invoice (subject to redaction requirements); (b) a summary of the Professional Fee Expenses for each Professional for the applicable time period, as well as for all prior time

³ The original date set forth in the Fee Review Order was January 15, 2014, but the Court entered an Order extending that date to February 4, 2014 [Dkt. # 2435].

periods; and (c) a statement by the Fee Examiner as to whether all of the Professional Fee Expenses covered by the Quarterly Report have been fully disclosed and are reasonable. Fee Review Order, ¶ 8. The Quarterly Reports must be filed with the Court and posted on the Emergency Manager's page of the City's website and on the restructuring website maintained by the City's claims and noticing agent. *Id.*

8. The Fee Review Order sets forth other procedures and requirements that apply to and govern the submission, disclosure and review of all Professional Fees in the Case.

Final Monthly Reports and Monthly Invoices

9. As required by the Fee Review Order, the Fee Examiner prepared and transmitted Preliminary Reports to each Professional that submitted a Monthly Invoice and engaged in Resolution Discussions with the Professionals prior to preparing the Final Monthly Reports. The Final Monthly Reports are attached hereto as Group Exhibit 1 (October 2013 Final Monthly Reports), Group Exhibit 2 (November 2013 Final Monthly Reports), and Group Exhibit 3 (December 2013 Final Monthly Reports) and they include copies of the applicable Monthly Invoices (redacted where applicable) submitted by each Professional for the relevant months.⁴

10. Each of the attached Final Monthly Reports includes summaries of the Professional Fee Expenses for each set of applicable Monthly Invoices, including a statement of voluntary write-offs and other reductions made by each of the Professionals with respect to each Monthly Invoice, both before the submission of each Monthly Invoice and as a result of the Resolution Discussions between the Fee Examiner and each Professional.

⁴ Except as noted in the Final Monthly Report to the contrary.

Summary of Professional Fee Expenses for Reporting Period

11. The following are summaries of the Professional Fee Expenses for the Reporting Period following the Fee Examiner's review of the Monthly Invoices and related Resolution Discussions with each Professional:⁵

City Professionals

Conway MacKenzie, Inc.		
	Total Fee Request	Total Expense Request
October 2013	\$1,146,896.92	\$7,946.68
November 2013	\$998,749.71	\$2,504.87
December 2013	\$937,261.87	\$5,018.27
Quarterly Totals:	\$3,082,908.50	\$15,469.82
Total for Third Quarter 2013:	\$2,258,042.61	\$1,218.89
Total for Case:	\$5,340,951.11	\$16,688.71

Jones Day		
	Total Fee Request	Total Expense Request
October 2013	\$3,643,321.87	\$102,116.08
November 2013	\$3,213,403.12	\$290,214.23
December 2013	\$3,168,888.75	\$197,918.20
Quarterly Totals:	\$10,025,613.74	\$590,248.51
Total for Third Quarter 2013:	\$6,589,572.64	\$143,273.82
Total for Case:	\$16,615,186.38	\$733,522.33

⁵ As set forth in the applicable Monthly Reports, this Second Quarterly Report does not address the Professional Fee Expenses of Ernst & Young ("EY") and Dentons US LLP ("Dentons") (as to December 2013). As to EY, the Fee Examiner intends to prepare and file a supplement to the October, November and December Final Monthly Report and this Second Quarterly Report as soon as EY provides a response on the open matters (as set forth in the October, November and December Final Monthly Reports) and any associated Resolution Discussions can be concluded. As to Dentons, the Fee Examiner intends to prepare and file a supplement to the December Final Monthly Report and this Second Quarterly Report as soon as Dentons provides a response on the open matters (as set forth in the December Final Monthly Report) and any associated Resolution Discussions can be concluded.

Foley & Lardner LLP		
	Total Fee Request	Total Expense Request
October 2013	\$15,021.50	\$0.00
December 2013	\$7,600.00	\$0.00
Quarterly Totals:	\$22,621.50	\$0.00
Total for Third Quarter 2013:	\$114,855.00	\$0.00
Total for Case:	\$137,476.50	\$0.00

Kurtzman Carson Consultants LLC		
	Total Fee Request	Total Expense Request
October 2013	\$21,864.00	\$31,456.35
November 2013	\$35,341.00	\$268,951.40
December 2013	\$59,812.50	\$14,340.08
Quarterly Totals:	\$117,017.50	\$314,747.83
Total for Third Quarter 2013:	\$87,062.00	\$123,176.90
Total for Case:	\$204,079.50	\$437,924.73

Miller Buckfire & Co. LLC		
	Total Fee Request	Total Expense Request
October 2013	\$500,000.00	\$16,617.30
November 2013	\$500,000.00	\$25,350.79
December 2013	\$500,000.00	\$18,140.21
Quarterly Totals:	\$1,500,000.00	\$60,108.30
Total for Third Quarter 2013:	\$1,225,806.45	\$51,302.29
Total for Case:	\$2,725,806.45	\$111,410.59

Miller, Canfield, Paddock & Stone, P.L.C.		
	Total Fee Request	Total Expense Request
October 2013	\$395,357.50	\$6,767.35
November 2013	\$266,889.25	\$9,829.92
December 2013	\$218,217.25	\$5,682.17
Quarterly Totals:	\$880,464.00	\$22,279.44
Total for Third Quarter 2013:	\$575,840.25	\$4,160.23
Total for Case:	\$1,456,304.25	\$26,439.67

Milliman, Inc.		
	Total Fee Request	Total Expense Request
October 2013	\$96,419.20	\$1,488.51
November 2013	\$97,861.20	\$2,255.66
December 2013	\$84,976.50	\$0.00
Quarterly Totals:	\$279,256.90	\$3,744.17
Total for Third Quarter 2013:	\$261,762.20	\$18,311.78
Total for Case:	\$541,019.10	\$22,055.95

Pepper Hamilton LLP		
	Total Fee Request	Total Expense Request
October 2013	\$221,073.50	\$266.50
November 2013	\$119,867.18	\$4,074.22
December 2013	\$177,910.20	\$3,465.45
Quarterly Totals:	\$518,850.88	\$7,806.17
Total for Third Quarter 2013:	\$272,080.50	\$6,847.68
Total for Case:	\$790,931.38	\$14,653.85

Ernst & Young LLP		
	Total Fee Request	Total Expense Request
October 2013	TBD	TBD
November 2013	TBD	TBD
December 2013	TBD	TBD
Quarterly Totals:	TBD	TBD
Total for Third Quarter 2013:⁶	TBD	TBD
Total for Case:	TBD	TBD

⁶ EY has just recently provided the Fee Examiner with the revised/redacted Monthly Invoices for July-September 2013, and the Fee Examiner will shortly be filing a Supplement to the Quarterly Report for the Months of July, August and September 2013.

Kilpatrick & Associates, PC		
	Total Fee Request	Total Expense Request
October 2013	\$11,850.00	\$0.00
November 2013	\$8,495.00	\$0.00
December 2013	\$4,895.00	\$0.00
Quarterly Totals:	\$25,240.00	\$0.00
Total for Third Quarter 2013:	\$24,705.00	\$61.60
Total for Case:	\$49,945.00	\$61.60

Dykema Gossett, PLLC		
	Total Fee Request	Total Expense Request
July (Post-petition) 2013 - November 2013	\$148,277.00	\$539.64
December 2013	\$4,495.00	\$2.20
Quarterly Totals:	\$152,772.00	\$541.84
Total for Case:	\$152,772.00	\$541.84

Ottenwess, Taweel & Schenk, PLC		
	Total Fee Request	Total Expense Request
October 2013	\$3,915.00	\$0.00
November 2013	\$3,375.00	\$25.70
December 2013	\$2,565.00	\$3.10
Quarterly Totals:	\$9,855.00	\$28.80
Total for Case:	\$9,855.00	\$28.80

Committee Professionals

Dentons US LLP/Salans FMC SNR Denton Europe LLP⁷		
	Total Fee Request	Total Expense Request
October 2013	\$1,943,608.25	\$49,141.61
November 2013	\$979,896.31	\$82,306.41
Totals:	\$2,923,504.56	\$131,448.02
Total for Third Quarter 2013:	\$1,512,979.75	\$54,102.83
Total for Case:	\$4,436,484.31	\$185,550.85

Brooks Wilkins Sharkey & Turco PLLC		
	Total Fee Request	Total Expense Request
October 2013	\$94,851.50	\$1,062.25
November 2013	\$59,315.50	\$739.29
December 2013	\$43,925.50	\$387.50
Quarterly Totals:	\$198,092.50	\$2,189.04
Total for Third Quarter 2013:	\$74,478.00	\$305.20
Total for Case:	\$272,570.50	\$2,494.24

Lazard Freres & Co. LLC		
	Total Fee Request	Total Expense Request
October 2013	\$175,000.00	\$11,369.41
November 2013	\$175,000.00	\$27,222.62
December 2013	\$175,000.00	\$16,884.54
Quarterly Totals:	\$525,000.00	\$55,476.57
Total for Third Quarter 2013:	\$163,333.33	\$0.00
Total for Case:	\$688,333.33	\$55,476.57

⁷ Dentons has not submitted a final, revised December Invoice to the Fee Examiner. Therefore, its December Invoice is not covered by this Second Quarterly Report.

Segal Consulting		
	Total Fee Request	Total Expense Request
October 2013	\$309,055.00	\$12,935.22
November 2013	\$161,710.00	\$10,606.58
December 2013	\$228,788.00	\$7,742.72
Quarterly Totals:	\$699,553.00	\$31,284.52
Total for Third Quarter 2013:	\$209,204.50	\$7,103.37
Total for Case:	\$908,757.50	\$38,387.89

Statement Regarding Disclosure and Reasonableness of Professional Fee Expenses

12. The procedures and requirements set forth in the Fee Review Order, including but not limited to the submission of the information contained in this Second Quarterly Report, are intended to ensure the adequacy of disclosure and a mechanism to assess the reasonableness of all Professional Fee Expenses. For example, the Initial Submissions enabled the Fee Examiner (i) to understand the terms of the engagement letters pursuant to which each Professional is employed, (ii) to evaluate the significance of any Discounted Rates in comparison to each Professional's regular hourly rates, and (iii) to obtain Monthly Invoices in a sufficiently detailed and organized format that is conducive to meaningful review. The Fee Examiner, individually and through his professionals, conducted a thorough review of each Monthly Invoice and generated a Preliminary Report for each Monthly Invoice that contained the Fee Examiner's detailed comments and questions, which were aimed at (a) generating compliance with the substantive requirements of the Fee Review Order and the reasonableness standards developed by the Fee Examiner based on his extensive experience in bankruptcy cases, and (b) providing full public disclosure of the Professional Fee Expenses (subject only to redacting as determined by the applicable Professional).

13. Clearly, the Professional Fee Expenses incurred during the Reporting Period were substantial. Due to the magnitude and complexity of the Case, the novelty of the legal issues, the extremely tight time frames imposed by the Court and the strong differences in opinion between

the various parties about what to do and how to do it, it was (and continues to be) inevitable that the costs associated with the services provided by the various Professionals were going to be significant. It is impossible (and inappropriate) to view these numbers in the abstract. They must be tested against the circumstances of the Case, such as the amount of debt being addressed, the number of competing interests that have to be considered, the number of diverse problems that must be simultaneously considered and solved and the uncharted waters of a Chapter 9 case of this magnitude.

14. During the Reporting Period, significant matters were on-going, including the eligibility trial, numerous simultaneous mediations, the contested hearings respecting the Debtor's motion to assume and approve the forbearance and optional termination agreement documenting the settlement of swap-related disputes, and multiple pension and labor negotiations.

15. All of the issues that the Fee Examiner identified in the Preliminary Reports were reasonably addressed to his satisfaction through the Resolution Discussions and the subsequent revisions to invoices, which in many instances resulted in additional voluntary reductions by the Professionals. That is not to say that every recommendation of the Fee Examiner was accepted by every Professional. The power of the Fee Examiner under the Fee Review Order is limited to recommendations and challenges made through the Preliminary Reports and the Resolution Discussions. The Fee Examiner has no authority to require modifications of the Monthly Invoices or to unilaterally reduce the amount of any firm's Professional Fee Expense request.

16. The Final Monthly Reports prepared by the Fee Examiner delineate the voluntary write-offs and reductions by each Professional, both before the submission of each Monthly Invoice and as a result of the Resolution Discussions with the Fee Examiner, and, in the Fee

Examiner's opinion, further reflect the reasonableness of the Professional Fee Expenses. Although the fees incurred by the Professionals during the Reporting Period and covered by this Second Quarterly Report are substantial by any measure, the Fee Examiner believes that all of the requested fees are commensurate with the complexity and speed of the Case, and the quality of the services that the Professionals have provided. Furthermore, the Fee Examiner believes that all of the requested expenses were necessarily incurred by the Professionals in connection with the services rendered. Accordingly, the Fee Examiner submits that all of the Professional Fee Expenses from the Reporting Period, as addressed by this Second Quarterly Report, have been fully disclosed and are reasonable, as required by 11 U.S.C. § 943(b)(3).

Respectfully submitted,

Dated: May 6, 2014

By: /s/ Robert M. Fishman
Robert M. Fishman, Fee Examiner

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